

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name OGEMAW COUNTY ROAD COMMISSION	County OGEMAW
Audit Date 12/31/2005	Opinion Date 02/24/2006	Date Accountant Report Submitted to State: 04/28/2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



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OGEMAW COUNTY ROAD COMMISSION
WEST BRANCH, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2005

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PAGE

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 8

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EXHIBIT A	STATEMENT OF NET ASSETS	9
EXHIBIT B	STATEMENT OF ACTIVITIES	10

FUND FINANCIAL STATEMENTS

EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUND	11
EXHIBIT D	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	12
EXHIBIT E	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	13
EXHIBIT F	RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	14
EXHIBIT G	NOTES TO FINANCIAL STATEMENTS	15 - 27

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT H	STATEMENT OF REVENUE AND OTHER FINANCIAL RESOURCES - BUDGETARY COMPARISON SCHEDULE	28
EXHIBIT I	STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - BUDGETARY COMPARISON SCHEDULE	29

OTHER DATA

EXHIBIT J	ANALYSIS OF CHANGES IN FUND BALANCE	30
EXHIBIT K	ANALYSIS OF REVENUE	31
EXHIBIT L	ANALYSIS OF EXPENDITURES	32
	REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	33



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February 24, 2006

Independent Auditors' Report

Board of County Road Commissioners
Ogemaw County
West Branch, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ogemaw County Road Commission, West Branch, Michigan, a component unit of the County of Ogemaw, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, as listed in the index. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ogemaw County Road Commission, West Branch, Michigan, as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2006, on our consideration of the Ogemaw County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ogemaw County Road Commission's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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Commission & Board of Public Works

OGE MAW COUNTY ROAD COMMISSION

Management's Discussion and Analysis For Fiscal Year Ended December 31, 2005

Our discussion and analysis of Ogemaw County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present a different view of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

ENGINEER-MANAGER
Michael P. Schultz, P.E.

CHAIRMAN
William Muzik

- 2 -

COMMISSIONER
Mitchel R. Holcomb

COMMISSIONER
Van Sheltrown

Reporting the Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operating fund. All of the Road Commission's activities are accounted for in this fund. The general operating fund is a governmental fund type. The fund financial statements begin on Exhibit C and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 6.1%, or \$1,732,900 from \$28,375,770 to \$30,108,670 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt), are considered restricted.

The restricted net assets decreased by \$59,737 during 2005. The primary reason for the decrease was due to a decrease in inventory by \$51,931.

The investment in capital assets, net of related debt, increased by \$1,792,637. The increase in net assets is primarily the result of current year additions of \$3,410,874 net of the depreciation for the current year of \$1,614,191. The prior year net assets were restated from \$8,655,516 to \$28,375,770 due to the Road Commission retroactively recording infrastructure assets (assets acquired after 1980) in 2005 as permitted by GASB 34. The retroactive infrastructure increase d capital assets by \$27,870,092 and also increased accumulated depreciation by \$8,149,838.

Financial Analysis of the Road Commission as a Whole (Continued)

Net assets as of years ended December 31, 2005 and 2004 follow:

TABLE 1
NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 2,581,066	\$ 2,702,092
Capital Assets	<u>28,406,269</u>	<u>26,683,632</u>
Total Assets	<u>30,987,335</u>	<u>29,385,724</u>
Current and Other Liabilities	308,381	380,038
Long-Term Debt Outstanding	<u>570,284</u>	<u>629,916</u>
Total Liabilities	<u>878,665</u>	<u>1,009,954</u>
<u>Net Assets</u>		
Invested in Capital Assets		
Net of Debt	28,056,269	26,263,632
Restricted	<u>2,052,401</u>	<u>2,112,138</u>
Total Net Assets	<u>\$ 30,108,670</u>	<u>\$ 28,375,770</u>

Changes in Net Assets

Total net assets increased by \$1,732,900 , primarily due to the net capital asset activity for 2005.

TABLE 2
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Program Revenue		
Licenses and Permits	\$ 17,640	\$ 21,900
Federal Aid	130,468	191,665
State Aid	3,328,642	3,569,443
Contributions From Local Units	1,115,376	1,234,196
Charges for Services	815,897	573,093
Investment Earnings	56,610	21,577
Reimbursements	36,751	7,782
General Revenue		
Sale of Materials	9,991	8,966
Contribution of Capital Assets	809,066	0
Gain on Equipment Disposal	<u>49,904</u>	<u>33,610</u>
Total Revenue	<u>6,370,345</u>	<u>5,662,232</u>

Financial Analysis of the Road Commission as a Whole (Continued)

TABLE 2
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	Governmental Activities 2005	Governmental Activities 2004
Expenses		
Public Works	\$ 4,615,185	\$ 3,163,319
Interest Expense	22,260	25,830
Total Expenses	<u>4,637,445</u>	<u>3,189,149</u>
Increase in Net Assets	<u>\$ 1,732,900</u>	<u>\$ 2,473,083</u>

The Road Commission's Fund

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operating fund decreased \$49,369 as compared to a decrease of \$164,282 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$5,561,279, a decrease of \$100,953 as compared to last year. This change in revenues resulted primarily from a decrease in township contributions of \$118,820, and Michigan Transportation Funds of \$170,026 as well as an increase in state maintenance and non-maintenance in the amount of \$241,771. All other revenues netted a decrease of \$53,878. Total expenditures were \$5,610,648, a decrease of \$215,866 as compared to last year. This change in expenditures is due primarily to a decrease in road maintenance and heavy maintenance expenditures of \$234,607, and net capital outlay of \$320,472, and an increase in net equipment expense in the amount of \$217,203. Other miscellaneous expenditures netted an increase of \$122,010.

A summary of changes in the Operating Fund is as follows:

	12/31/05 Operating Fund	12/31/04 Operating Fund
Revenues		
Licenses and Permits	\$ 17,640	\$ 21,900
Federal Grants	130,468	191,665
State Grants	3,328,642	3,569,443
Contributions From Local Units	1,115,376	1,234,196
Charges for Services	815,897	573,093
Interest and Rents	56,610	21,577
Other Revenue	<u>96,646</u>	<u>50,358</u>
Total Revenues	<u>5,561,279</u>	<u>5,662,232</u>
Expenditures		
Public Works	5,795,038	5,686,862
Net Capital Outlay	(276,650)	43,822
Debt Service	<u>92,260</u>	<u>95,830</u>
Total Expenditures	<u>5,610,648</u>	<u>5,826,514</u>

Financial Analysis of the Road Commission as a Whole (Continued)

	12/31/05 <u>Operating Fund</u>	12/31/04 <u>Operating Fund</u>
Excess of Expenditures Over Revenues	\$ (49,369)	\$ (164,282)
Fund Balance – Beginning	<u>2,322,054</u>	<u>2,486,336</u>
Fund Balance – Ending	<u>\$ 2,272,685</u>	<u>\$ 2,322,054</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$195,145 greater than the original budget primarily due to the state routine and non-maintenance projects being \$186,551 greater than anticipated. The actual revenue recognized during 2005 was greater than the final amended budget by \$83,634. There were no material unfavorable variances in all revenue line items. (See Exhibit H for details)

The final amended expenditure budget for 2005 was \$528,318 greater than the original budget. The routine maintenance expenditure budget was increased in the amount of \$40,800 primarily due to an expected increase in winter maintenance expense. The heavy maintenance budget was increased by \$124,000. This increase was due to additional projects picked up during the year, and some work started on 2006 projects. Other expenditures increased by \$363,518 which included additional state maintenance and non-maintenance projects increased by \$193,000 and an increase in capital outlay by \$98,918. Other expenses netting an increase of \$71,600 from the original budget was primarily equipment expense due to increased fuel costs. The actual expenditures recognized during 2005 were less than the final amended budget by \$21,030. There were unfavorable variances of expenses over budget estimates as follows: In primary heavy maintenance the expense was greater than the budget by \$29,829. The federal and state funded project activity was greater than expected by \$26,000 when projects were reconciled. An additional \$7,500 of gravel was added when project costs were reviewed by staff. Local heavy maintenance was over budget by \$6,087 due to engineering invoices of \$6,300 received in December for 2006 projects.

Primary maintenance costs exceeded the budget estimate by \$15,218. Estimates are made each year-end for unknown winter maintenance needs. In 2005 the costs for primary road maintenance came in over the budget, whereas the local road maintenance expense was under the budget by \$35,360.

Other variances include capital outlay of \$2,332, primarily due to depreciation being greater than expected, and state non-maintenance costs slightly over the estimate by \$14.

OGEMAW COUNTY ROAD COMMISSION

Management's Discussion and Analysis For Fiscal Year Ended December 31, 2005

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$41,825,037 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,674,962 or 6.40% as follows:

	<u>2005</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 78,371	\$ 78,371
Infrastructure – Land Improvements	<u>13,542,925</u>	<u>11,813,585</u>
Subtotal	<u>13,621,296</u>	<u>11,891,956</u>
Capital Assets Being Depreciated		
Buildings	1,524,954	1,495,488
Equipment - Road	4,495,001	4,493,593
Equipment - Shop	145,658	118,104
Equipment - Office	210,879	205,333
Equipment – Engineer's	3,251	3,251
Infrastructure - Bridges	1,801,719	1,801,719
Infrastructure - Roads	<u>20,022,279</u>	<u>19,140,631</u>
Subtotal	<u>28,203,741</u>	<u>27,258,119</u>
Total Capital Assets	41,825,037	39,150,075
Total Accumulated Depreciation	<u>13,418,768</u>	<u>12,466,443</u>
Total Net Capital Assets	<u>\$ 28,406,269</u>	<u>\$ 26,683,632</u>

The Road Commission reported infrastructure and related assets during the current year in the amount of \$3,410,874. The infrastructure recorded, during 2005, will begin to be depreciated in the current year. The infrastructure is financed through federal, state and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) in the current year as permitted by GASB 34.

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right of Way	\$ 3,117,983
Trucks/Equipment	201,001
Building Improvements	29,466
Office Equipment	34,870
Shop Equipment	<u>27,554</u>
Total Additions	<u>\$ 3,410,874</u>

During 2005, the Road Commission traded in and/or disposed of equipment (road and office) with a purchase amount of \$228,917, related depreciation of \$154,871, and net book value of \$74,046. The Road Commission also disposed of infrastructure that was fully depreciated with a purchase amount of \$506,995.

OGEMAW COUNTY ROAD COMMISSION

Management's Discussion and Analysis For Fiscal Year Ended December 31, 2005

Debt

At the year-end, the Road Commission had \$350,000 in bonds and installment purchase agreements versus \$420,000 last year, a decrease of 17% as shown below:

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>% Of Variance</u>
Revenue Notes Payable	<u>\$ 350,000</u>	<u>\$ 420,000</u>	<u>\$ 70,000</u>	(17%)

The Notes Payable represents the balance due on the addition to the buildings at the Road Commission completed in 2000. During 2005, there was no additional debt incurred.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 54% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$676,490 (22%) less Michigan Transportation Fund revenues in 2006. The reason for this decrease is because the Road Commission has changed from a calendar year in 2005 to a fiscal year ending September 30, 2006, as required by law when the County changes their year end. Therefore the budget reflects only nine months activity for 2006. The Road Commission also received approximately 20% of its revenues from township contributions during 2005, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. In 2006 the township contributions are estimated to be \$917,500. During 2006, we expect to receive at least \$450,000 in federal and state aid for road projects, some of which was deferred from 2005. The 2006 funded project will be two miles compared to one mile in 2005.

The Board realizes and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Ogemaw County's transportation system; therefore, the board attempts to spend the public's money wisely, equitably and in the best interest of the motoring public and the citizens of Ogemaw County.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administrative office at 1250 S. M-33, P.O. Box 157, West Branch, Michigan.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

STATEMENT OF NET ASSETS
December 31, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 1,148,430
Investments (Note 3)	405,264
Accounts receivable:	
State trunkline maintenance	85,944
State department of transportation:	
Other	783
Michigan transportation fund	483,080
Sundry accounts	19,232
Inventories: (Note 1)	
Equipment materials and parts	213,221
Road materials	225,112
Capital assets (net of accumulated depreciation) (Note 6)	<u>28,406,269</u>
 Total Assets	 <u>30,987,335</u>
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable	34,404
Accrued liabilities	28,761
Due to state	2,344
Escrow deposits payable	2,500
State trunkline equipment advance	173,471
Deferred revenue	66,901
Noncurrent liabilities:	
Revenue notes payable - due within one year (Note 7)	70,000
Revenue notes payable - due after one year (Note 7)	280,000
Vested employee benefits payable (Note 7)	<u>220,284</u>
 Total Liabilities	 <u>878,665</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	28,056,269
Restricted for county road	<u>2,052,401</u>
 Total Net Assets	 <u>\$ 30,108,670</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

	<u>Governmental Activities</u>
Program expenses:	
Primary road maintenance	\$ 930,218
Local road maintenance	1,999,991
Net equipment expense	192,661
Net administrative expense	344,397
Compensated absences	10,368
Infrastructure depreciation	1,118,695
Interest expense	22,260
Other	<u>18,855</u>
Total program expenses	<u>4,637,445</u>
Program revenue:	
Licenses and permits	17,640
Federal aid	130,468
State aid	3,328,642
Contributions from local units	1,115,376
Charges for services	815,897
Investment earnings	56,610
Reimbursements	<u>36,751</u>
	<u>5,501,384</u>
Net program revenue	<u>863,939</u>
General revenue:	
Sale of materials	9,991
Contribution of capital assets	809,066
Gain on equipment disposal	<u>49,904</u>
Total general revenue	<u>868,961</u>
Change in net assets	1,732,900
Net assets - beginning of year, as restated (Note 2)	<u>28,375,770</u>
Net assets - end of year	<u>\$ 30,108,670</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

BALANCE SHEET
 GOVERNMENTAL FUND
December 31, 2005

	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 3)	\$ 1,148,430
Investments (Note 3)	405,264
Accounts receivable:	
State trunkline maintenance	85,944
State department of transportation:	
Other	783
Michigan transportation fund	483,080
Sundry accounts	19,232
Inventories: (Note 1)	
Equipment materials and parts	213,221
Road materials	<u>225,112</u>
Total Assets	<u>\$ 2,581,066</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	
Accounts payable	\$ 34,404
Accrued liabilities	28,761
Due to state	2,344
Escrow deposits payable	2,500
State trunkline equipment advance	173,471
Deferred revenue	<u>66,901</u>
Total liabilities	308,381
<u>Fund Equity</u>	
Fund balance:	
Unreserved and undesignated	<u>2,272,685</u>
Total Liabilities and Fund Equity	<u>\$ 2,581,066</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2005

Total governmental fund balance: \$ 2,272,685

Amounts reported for governmental activities in the statement of
 net assets are different because:

Capital assets used in governmental activities are not financial resources
 and therefore are not reported as assets in the governmental fund. Capital
 assets at year end consist of:

Capital asset cost	\$ 41,825,037	
Capital asset accumulated depreciation	<u>(13,418,768)</u>	
		28,406,269

Long-term liabilities, including notes payable, are not due and payable
 in the current period and, therefore, are not reported as liabilities in
 the governmental fund. Long-term liabilities at year end consist of:

Notes payable	(350,000)	
Compensated absences payable	<u>(220,284)</u>	
Total long-term liabilities		<u>(570,284)</u>

Total net assets - governmental activities \$ 30,108,670

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 GOVERNMENTAL FUND
For the Year Ended December 31, 2005

	<u>General Operating Fund</u>
<u>Revenue</u>	
Licenses and permits	\$ 17,640
Federal aid	130,468
State aid	3,328,642
Contributions from local units	1,115,376
Charges for services	815,897
Interest	56,610
Other revenue	<u>96,646</u>
Total revenue	<u>5,561,279</u>
<u>Expenditures</u>	
Public works	5,795,038
Net capital outlay	(276,650)
Debt service	<u>92,260</u>
Total expenditures	<u>5,610,648</u>
Excess of revenue over (under) expenditures	(49,369)
Fund balance - beginning of year	<u>2,322,054</u>
Fund balance - end of year	<u>\$ 2,272,685</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Total net change in fund balance - governmental fund	\$	(49,369)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (1,614,191)	
Capital outlays reported in the governmental fund	<u>2,601,808</u>	
Net difference		987,617

Contributions of capital assets are reported as a revenue in the statement of activities, but are not reported in the governmental fund.		809,066
--	--	---------

Equipment retirement is recorded as an expenditure credit in the governmental fund, but not recorded as an expense in the statement of net assets.		(74,046)
--	--	----------

Repayment of note principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental fund.		70,000
---	--	--------

Net change in accrued compensated absences:		
Accrued compensated absences December 31, 2004	209,916	
Accrued compensated absences December 31, 2005	<u>(220,284)</u>	
		<u>(10,368)</u>

Change in net assets of governmental activities	\$	<u>1,732,900</u>
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The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ogemaw County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Road Commission is considered to be a local government unit. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Ogemaw County Road Commission is, for financial reporting purposes, within generally accepted accounting principles, a discrete component unit of Ogemaw County and has been combined with Ogemaw County's financial statements.

The Road Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Road Commission exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designations of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund money distributed to the County, which is earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Fund Accounting

The Road Commission uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Road Commission functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The special revenue fund of the Road Commission is in the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Road Commission's major governmental fund:

Special Revenue Fund – The Special Revenue Fund is the general operating fund of the Road Commission. It is used to account for all financial resources.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Road Commission as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Road Commission that are governmental and those that are considered business-type activities. The Road Commission does not currently have any business-type activities.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Road Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Road Commission, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Road Commission.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Fund Financial Statements:

Fund financial statements report detailed information about the Road Commission. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Road Commission's special revenue fund is considered a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The governmental fund type is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for the governmental fund are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund uses the modified accrual basis of accounting.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Road Commission, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Road Commission receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Road Commission must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Road Commission on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, grants and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other

Inventories

Inventories are stated at cost as determined on the first-in, first-out method of accounting. Inventory items are charged to road construction, maintenance, equipment repairs, and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g. road, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. With one exception, any piece of equipment with a Schedule C equipment rental rate must be classified as a capital asset regardless of value. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Road Commission has capitalized these assets in the current year, as well as the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	20 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	10 years
Office Equipment	10 years
Infrastructure —Roads	8 to 30 years
Infrastructure —Bridges	12 to 50 years

Compensated Absences

The Road Commission reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Commission's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Road Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2005.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Budgets and Budgetary Accounting

The Road Commission normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Road Commission Engineer/Manager submits to the Board of Commissioners a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of a Board resolution.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other (Continued)

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Road Commission Board.

Budgets shown in the financial statements are adopted on the modified accrual basis of accounting, which is the same basis as the fund financial statements, and consist only of those amounts contained in the formal budget approved and amended by the Road Commission Board.

F. Cash and Cash Equivalents and Investments

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Road Commission are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. Investments are stated at fair market value.

NOTE 2 - RESTATEMENT OF NET ASSETS

The Road Commission has elected to retroactively capitalize infrastructure assets that are part of major networks and major subsystems that have been acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 in order to comply with Governmental Accounting Standards Board (GASB) Statement No. 34.

The restatement for capitalization of these assets is presented below:

Net assets as originally stated at December 31, 2004	\$ 8,655,516
Retroactive capitalization of infrastructure assets acquired, donated, Constructed, or substantially rehabilitated from 1982 through 2002	<u>19,720,254</u>
Net assets as restated at December 31, 2004	<u>\$ 28,375,770</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 1,148,430
Investments	<u>405,264</u>
	<u>\$ 1,553,694</u>

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, money market funds and certificates of deposit)	\$ 1,148,280
Investment in Commercial Paper	405,264
Petty Cash and Cash on Hand	<u>150</u>
	<u>\$ 1,553,694</u>

As of December 31, 2005, the Road Commission had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Commercial Paper	<u>\$ 405,264</u>	Monthly

Credit Risk

As of December 31, 2005, the Road Commission's investments consisted entirely of investment in the Citigroup Global Markets Inc. General Electric Capital Corporation 3(a) 3 Commercial Paper. This fund was rated A-1+ by Standard & Poor's and P-1 by Moody's.

Concentration of Credit Risk

The Road Commission's investment policy does not address concentration of credit risk. More than 5% of the Road Commission's investments are in GE commercial paper which represents 100% of the Road Commission's total investments.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of December 31, 2005, \$1,002,758 of the Road Commission's bank balance of \$1,209,436 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Road Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities approved in the Road Commission's investment policy which is in accordance with State law.

Interest Rate Risk and Foreign Currency Risk

The Road Commission's investment policy does not address interest rate risk or foreign currency risk.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The Board of County Road Commissioners has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Road Commission to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Road Commission's deposits and investments are in accordance with statutory authority.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Road Commission for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE 5 - RECEIVABLES

Receivables at December 31, 2005, consist of accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the Road Commission for the current year is as follows:

	<u>Balance</u> <u>01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/05</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	<u>\$11,891,956</u>	<u>\$ 1,729,340</u>	<u>\$ 0</u>	<u>\$13,621,296</u>
Capital Assets Being Depreciated:				
Buildings	1,495,488	29,466	0	1,524,954
Equipment - road	4,493,593	201,001	199,593	4,495,001
Equipment - shop	118,104	27,554	0	145,658
Equipment - office	205,333	34,870	29,324	210,879
Equipment - engineer's	3,251	0	0	3,251
Infrastructure -- bridges	1,801,719	0	0	1,801,719
Infrastructure -- roads	<u>19,140,631</u>	<u>1,388,643</u>	<u>506,995</u>	<u>20,022,279</u>
Subtotal	<u>27,258,119</u>	<u>1,681,534</u>	<u>735,912</u>	<u>28,203,741</u>
Less Accumulated Depreciation for:				
Buildings	572,454	46,627	0	619,081
Equipment - road	3,313,841	418,919	125,547	3,607,213
Equipment - shop	89,438	9,322	0	98,760
Equipment - office	131,477	20,496	29,324	122,649
Equipment - engineer's	2,919	132	0	3,051
Infrastructure -- bridges	456,144	41,821	0	497,965
Infrastructure -- roads	<u>7,900,170</u>	<u>1,076,874</u>	<u>506,995</u>	<u>8,470,049</u>
Subtotal	<u>12,466,443</u>	<u>1,614,191</u>	<u>661,866</u>	<u>13,418,768</u>
Net Capital Assets Being Depreciated	<u>14,791,676</u>	<u>67,343</u>	<u>74,046</u>	<u>14,784,973</u>
Total Capital Assets				
Net of Depreciation	<u>\$26,683,632</u>	<u>\$ 1,796,683</u>	<u>\$ 74,046</u>	<u>\$28,406,269</u>

Depreciation expense was charged to programs of the Road Commission as follows:

County	
Direct equipment expense	\$ 418,920
Indirect equipment expense	50,585
Administrative expense	25,991
Infrastructure	<u>1,118,695</u>
Total Depreciation Expense	<u>\$ 1,614,191</u>

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM LIABILITIES

Following is a summary of pertinent information concerning the Road Commission's long-term liabilities :

A. Michigan Transportation Fund Revenue Note

The general long-term debt includes a note payable to the Michigan Transportation Fund for the financing of construction of additions and improvements to the facilities utilized for Roadway operations. The note is dated June 1, 2000 and repayable from the general operating revenues of the Road Commission.

<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
4.9% to 5.5%	2010	<u>\$ 350,000</u>	<u>\$ 56,560</u>	<u>\$ 406,560</u>

Annual Debt Service Requirements

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 70,000	\$ 18,690	\$ 88,690
2007	70,000	15,050	85,050
2008	70,000	11,340	81,340
2009	70,000	7,630	77,630
2010	<u>70,000</u>	<u>3,850</u>	<u>73,850</u>
	<u>\$ 350,000</u>	<u>\$ 56,560</u>	<u>\$ 406,560</u>

B. Compensated Absences

The compensated absences balance represents benefits which County Road Commission employees have a vested right to receive upon termination and/or retirement from employment in accordance with formulas in negotiated contracts .

Vacation	\$ 90,382
Sick	<u>129,902</u>
	220,284
Less estimated current portion	<u>0</u>
Total	<u>\$ 220,284</u>

C. Changes in Long-Term Liabilities

<u>Governmental Activities</u>	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>	<u>Amount Due In One Year</u>
Notes payable	\$ 420,000	\$ 0	\$ 70,000	\$ 350,000	\$ 70,000
Compensated absences	<u>209,916</u>	<u>10,368*</u>	<u>0</u>	<u>220,284</u>	<u>0</u>
	<u>\$ 629,916</u>	<u>\$ 10,368</u>	<u>\$ 70,000</u>	<u>\$ 570,284</u>	<u>\$ 70,000</u>

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities (Continued)

The payment dates of compensated absences payable are undeterminable. The interest expenditure on long-term obligations for the year was \$22,260.

*Represents net of additions and retirements for the year.

NOTE 8 - RETIREMENT SYSTEM - MERS OPERATED

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 9.72% of annual covered payroll for General-Union Members and 23.36% for General-Non-Union Members. The contribution requirements of the plan members are 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. If a member leaves the employ of the Road Commission, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with interest) are refunded to the member, if living, or to the members beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For 2004, the Road Commission's annual pension cost of \$173,050 was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The Road Commission's unfunded actuarial accrued liability has been calculated and accrued at December 31, 2005.

OGEMAW COUNTY ROAD COMMISSION
West Branch, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 8 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)Annual Pension Cost (Continued)

The Road Commission has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2004Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 3,624,544
Terminated employees not yet receiving benefits	125,500
Current employees -	
Accumulated employee contributions including allocated investment income	683,241
Employer financed	<u>2,045,711</u>
Total Actuarial Accrued Liability	6,478,996
Net assets available for benefits at actuarial value (Market value is \$4,209,549)	<u>4,312,536</u>
Unfunded Actuarial Accrued Liability	<u>\$ 2,166,460</u>

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2003	\$ 119,100	100%	\$ 0
December 31, 2004	\$ 157,183	100%	\$ 0
December 31, 2005	\$ 173,050	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 4,171,937	\$ 5,694,210	\$ 1,522,273	73%	\$ 1,146,976	133%
12/31/03	\$ 4,206,608	\$ 6,042,832	\$ 1,836,224	70%	\$ 1,190,107	154%
12/31/04	\$ 4,312,536	\$ 6,478,996	\$ 2,166,460	67%	\$ 1,226,070	177%

OGEMAW COUNTY ROAD COMMISSION
West Branch, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 9 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$130,468 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE 10 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2005, the County Road Commission incurred expenditures in certain accounts which were in excess of the amounts appropriated.

<u>Expenditures</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Primary road - heavy maintenance	\$ 871,000	\$ 900,829	\$ 29,829
Primary road - maintenance	\$ 915,000	\$ 930,218	\$ 15,218
Local road - heavy maintenance	\$ 1,402,000	\$ 1,408,087	\$ 6,087
State trunkline non-maintenance	\$ 161,000	\$ 161,014	\$ 14

NOTE 11 - CONTINGENCIESPartial Self-Insurance - General Liability

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of the Pool, the Road Commission is partially self-insured for general and auto liability, public official's errors and omissions, umbrella liability, and state trunkline auto liability. Under most circumstances, the municipality's maximum coverage per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Coverage</u>	<u>Deductible</u>
Auto liability	\$ 10,500,000 each occurrence	\$ 1,000
Public officials errors and omissions	\$ 10,000,000 each occurrence	\$ 0
Umbrella liability	\$ 10,500,000 each occurrence	\$ 1,000
State trunkline auto liability	Bodily Injury \$250,000/\$500,000 each person/each accident Property Damage \$1,000,000 each accident	\$ 0 \$ 0

State Trunkline Contracts

The financial transactions of the Road Commission are subject to audit by the State of Michigan Department of Transportation, pursuant to the terms of its State Trunkline Contract. Audit adjustments could either increase or decrease the revenue receivable from the State.

As of December 31, 2005, the audit of State Trunkline Contracts for 2003, 2004 and 2005 have not been completed.

REQUIRED SUPPLEMENTARY INFORMATION

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
 OPERATING FUND
 STATEMENT OF REVENUE AND OTHER FINANCIAL RESOURCES
 BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Licenses and permits</u>				
Permits	\$ 19,500	\$ 17,110	\$ 17,640	\$ 530
<u>Federal aid</u>				
Surface transportation program	140,000	126,000	130,468	4,468
<u>State aid</u>				
Michigan transportation fund				
Engineering	10,000	10,000	10,000	0
Primary roads	1,933,000	1,851,700	1,881,582	29,882
Local roads	1,219,000	1,162,200	1,184,008	21,808
Economic development fund				
Forest road	96,000	156,000	156,000	0
Rural primary (D)	100,000	88,400	97,052	8,652
<u>Contributions</u>				
City and village contributions	0	2,200	2,231	31
Township road agreements	1,095,000	1,111,085	1,111,145	60
Other contributions	0	2,000	2,000	0
<u>Charges for services</u>				
State trunkline maintenance	593,000	650,000	648,537	(1,463)
State trunkline non-maintenance	30,000	160,000	161,014	1,014
Salvage sales	0	3,750	6,346	2,596
<u>Other revenue</u>				
Reimbursements	6,000	21,700	21,751	51
Interest	25,000	56,000	56,610	610
Sale of materials	6,000	9,800	9,991	191
Gain on equipment disposal	10,000	49,700	49,904	204
Local grant	0	0	15,000	15,000
Total revenue	5,282,500	5,477,645	<u>\$ 5,561,279</u>	<u>\$ 83,634</u>
Fund balance - beginning of year	2,322,054	2,322,054		
Total budget	<u>\$ 7,604,554</u>	<u>\$ 7,799,699</u>		

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
 OPERATING FUND
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
 BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Primary road</u>				
Heavy maintenance	\$ 770,000	\$ 871,000	\$ 900,829	\$ (29,829)
Maintenance	800,000	915,000	930,218	(15,218)
<u>Local road</u>				
Heavy maintenance	1,379,000	1,402,000	1,408,087	(6,087)
Maintenance	1,300,000	1,225,800	1,190,440	35,360
State trunkline maintenance	593,000	650,000	648,537	1,463
State trunkline non-maintenance	25,000	161,000	161,014	(14)
<u>Equipment expense - net</u>	120,000	220,000		
Direct			897,364	
Indirect			406,877	
Operating			273,162	
Less: equipment rental			<u>(1,384,742)</u>	192,661
				27,339
<u>Administrative expense - net</u>	390,000	354,100		
Administrative expense			412,948	
Less: overhead - state			(67,781)	
purchase discounts			<u>(770)</u>	344,397
				9,703
<u>Capital outlay - net</u>	(377,900)	(278,982)		
Capital outlay			292,892	
Less: depreciation and depletion			(495,496)	
equipment retirements			<u>(74,046)</u>	(276,650)
				(2,332)
Other	12,000	19,500	18,855	645
<u>Debt Service</u>	92,260	92,260		
Debt principal payment			70,000	
Interest expense			<u>22,260</u>	<u>92,260</u>
				0
Total expenditures	5,103,360	5,631,678	<u>\$ 5,610,648</u>	<u>\$ 21,030</u>
Fund balance appropriation - end of year	<u>2,501,194</u>	<u>2,168,021</u>		
Total budget	<u>\$ 7,604,554</u>	<u>\$ 7,799,699</u>		

OTHER DATA

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

OPERATING FUND
 ANALYSIS OF CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenue	\$ 2,253,084	\$ 2,374,533	\$ 933,662	\$ 5,561,279
Total expenditures	<u>2,024,176</u>	<u>2,910,205</u>	<u>676,267</u>	<u>5,610,648</u>
Excess of revenue over (under) expenditures	228,908	(535,672)	257,395	(49,369)
Other financing sources (uses): Optional transfers in (out)	<u>(565,970)</u>	<u>565,970</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	(337,062)	30,298	257,395	(49,369)
Fund balance - beginning of year	<u>1,552,545</u>	<u>93,544</u>	<u>675,965</u>	<u>2,322,054</u>
Fund balance - end of year	<u>\$ 1,215,483</u>	<u>\$ 123,842</u>	<u>\$ 933,360</u>	<u>\$ 2,272,685</u>

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

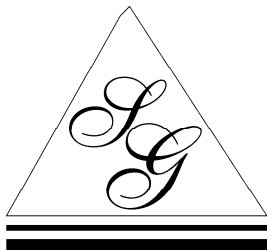
OPERATING FUND
 ANALYSIS OF REVENUE
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<u>Licenses and permits</u>				
Permits	\$ 0	\$ 0	\$ 17,640	\$ 17,640
<u>Federal aid</u>				
Surface transportation program	130,468	0	0	130,468
<u>State aid</u>				
Michigan transportation fund				
Engineering	5,000	5,000	0	10,000
Allocation	1,881,582	1,184,008	0	3,065,590
Economic development fund				
Forest road	0	156,000	0	156,000
Rural primary (D)	97,052	0	0	97,052
<u>Contributions</u>				
City and village contributions	0	2,231	0	2,231
Township road agreements	101,131	1,010,014	0	1,111,145
Other contributions	0	0	2,000	2,000
<u>Charges for services</u>				
State trunkline maintenance	0	0	648,537	648,537
State trunkline non-maintenance	0	0	161,014	161,014
Salvage sales	0	0	6,346	6,346
<u>Other revenue</u>				
Sundry refunds	0	0	21,050	21,050
Interest	37,851	2,280	16,479	56,610
Sale of materials	0	0	9,991	9,991
Miscellaneous	0	0	701	701
Gain on equipment disposal	0	0	49,904	49,904
RC&D grant	0	15,000	0	15,000
Total revenue	<u>\$ 2,253,084</u>	<u>\$ 2,374,533</u>	<u>\$ 933,662</u>	<u>\$ 5,561,279</u>

OGEMAW COUNTY ROAD COMMISSION
West Branch, Michigan

OPERATING FUND
 ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<u>Primary road</u>				
Heavy maintenance	\$ 900,829	\$ 0	\$ 0	\$ 900,829
Maintenance	930,218	0	0	930,218
<u>Local road</u>				
Heavy maintenance	0	1,408,087	0	1,408,087
Maintenance	0	1,190,440	0	1,190,440
State trunkline maintenance	0	0	648,537	648,537
State trunkline non-maintenance	0	0	161,014	161,014
Equipment expense - net (Per Exhibit I)	50,766	109,644	32,251	192,661
Administrative expense - net (Per Exhibit I)	142,363	202,034	0	344,397
Capital outlay - net (Per Exhibit I)	0	0	(276,650)	(276,650)
Other	0	0	18,855	18,855
Debt principal payment	0	0	70,000	70,000
Interest expense	0	0	22,260	22,260
Total expenditures	<u>\$ 2,024,176</u>	<u>\$ 2,910,205</u>	<u>\$ 676,267</u>	<u>\$ 5,610,648</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 24, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Ogemaw County
West Branch, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Ogemaw County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated February 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

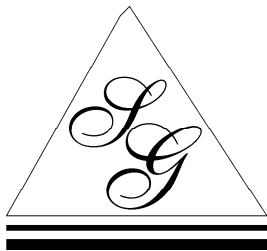
In planning and performing our audit, we considered the Ogemaw County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ogemaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the Ogemaw County Road Commission in a separate letter dated February 24, 2006.

This report is intended solely for the information and use of management, the Road Commission Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



Stephenson Gracik & Co., P.C.

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February 24, 2006

Board of County Road Commissioners
Ogemaw County
West Branch, Michigan

Dear Board Members :

We have audited the financial statements of the Ogemaw County Road Commission for the year ended December 31, 2005, and have issued our report thereon dated February 24, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated December 14, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Ogemaw County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide any assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Ogemaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ogemaw County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ogemaw County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ogemaw County Road Commission financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ogemaw County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Ogemaw County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ogemaw County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance as described in the fourth paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations:

Budget Control

The Road Commission's general operating fund included expenditures that exceeded appropriated amounts in various functions. We recommend that the Board continue to review and amend the budget periodically as a matter of good fiscal policy in accordance with the Uniform Budgeting and Accounting Act. When adopting and amending the budget, the Board should include the effects of year-end adjustments required by the modified accrual basis of accounting.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Road Commission.

This report is intended solely for the use of management, Road Commission Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.